# Analyzing and Recording Transactions

Chapter 2

**Wild and Shaw**

**Fundamental Accounting Principles**

**25th Edition**

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# Chapter 2 Learning Objectives

**CONCEPTUAL**

**C1** Describe an account and its use in recording transactions.

**C2** Define *debits* and *credits* and explain double-entry accounting.

**ANALYTICAL**

**A1** Analyze and record transactions and their impact on financial statements.

**A2** Compute the debt ratio and describe its use in analyzing financial condition.

**PROCEDURAL**

**P1** Prepare financial statements from a trial balance.

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# Learning Objective C1

Describe an account and its use in recording transactions.

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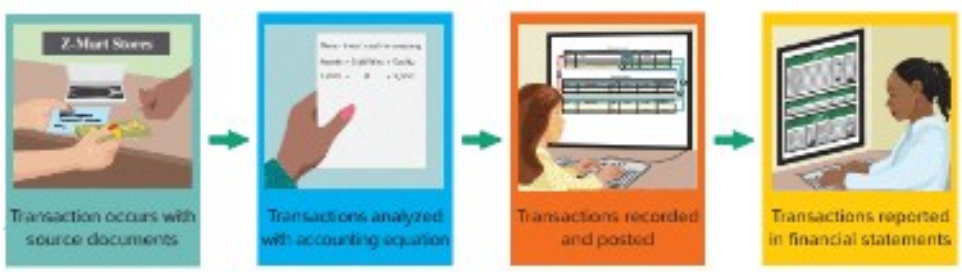
# Basis of Financial Statements

Business transactions and events are the starting points of financial statements. The process from transactions to financial statements is as follows:

- Identify transaction and event from source documents.
- Analyze transaction and event using the accounting equation.
- Record relevant transactions and events in a journal.
- Post journal information to ledger accounts.
- Prepare and analyze trial balance and financial statements.


Z-Mart Stores
Transaction occurs with source documents
Transactions analyzed with accounting equation
Transactions recorded and posted
Transactions reported in financial statements

**Learning Objective C1:** Describe an account and its use in recording transactions.

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# Source Documents

Source documents identify and describe transactions entering the accounting system.

Examples:

- Bills from suppliers
- Sales receipts
- Checks
- Purchase orders
- Payroll records
- Bank statements

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# The Account Underlying Financial Statements

An **account** is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense.

The **general ledger** is a record of all accounts and their balances.

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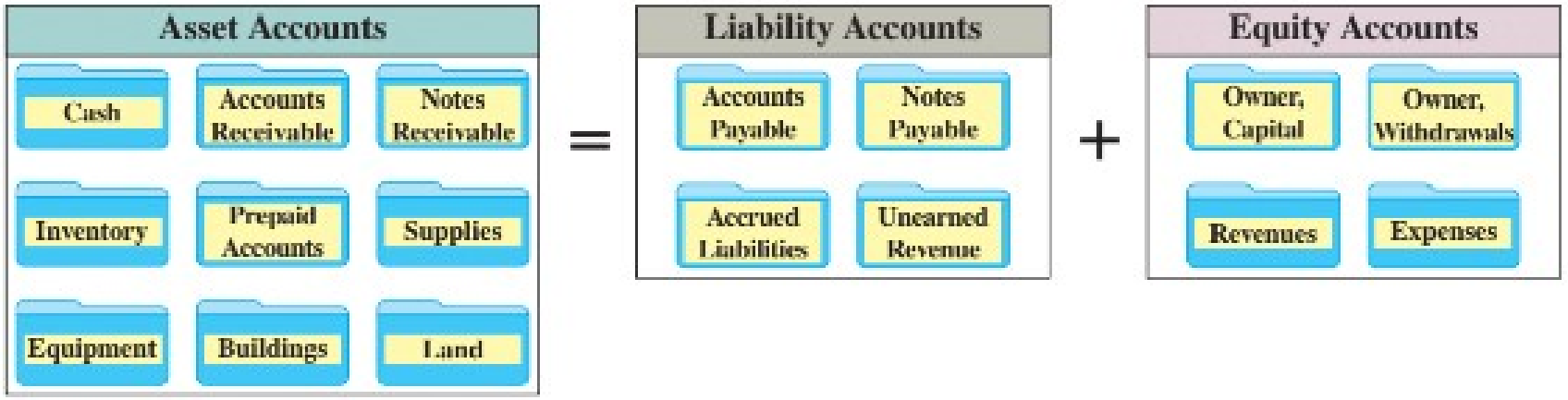
# The Account and Its Analysis

Exhibit 2.1

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# Asset Accounts

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# Liability Accounts

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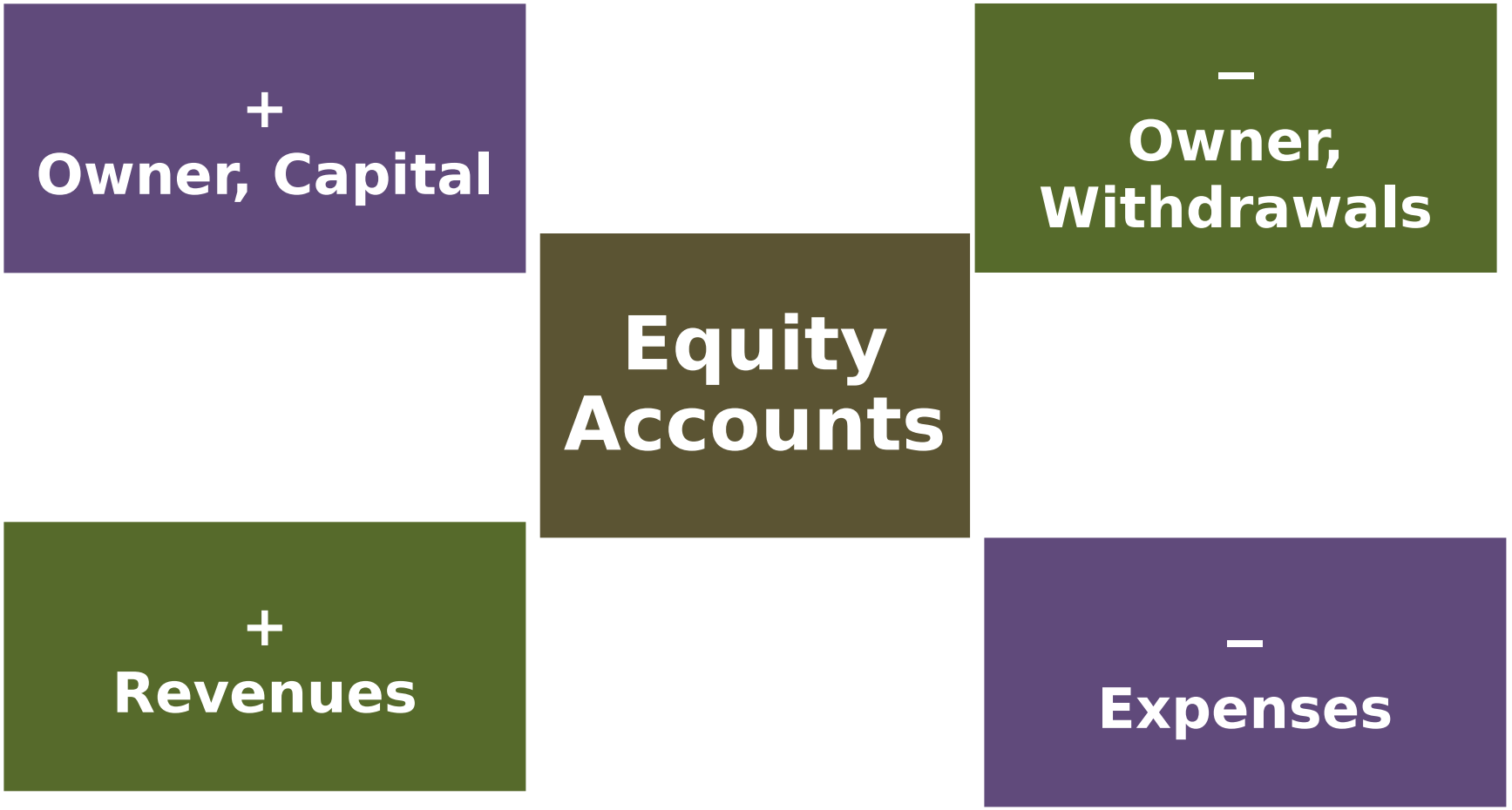
# Equity Accounts

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# Expanded Equity

Revenues and common stock increases equity.
Expenses and dividends decrease equity.

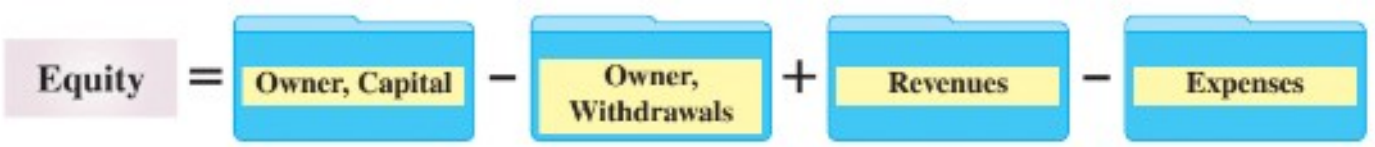


Exhibit 2.2

**Learning Objective C1:** Describe an account and its use in recording transactions.

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# Ledger and Chart of Accounts

The ledger is a collection of all accounts and their balances for an accounting system. A company's size and diversity of operations affect the number of accounts needed.

The chart of accounts is a list of all accounts and includes an identifying number for each account.

Exhibit 2.4

**Chart of Accounts**

| Assets | | Liabilities | | Equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Revenues | | Expenses | |
| 101 | Cash | 201 | Accounts payable | 301 | C. Taylor, Capital | 403 | Consulting revenue | 622 | Salaries expense |
| 106 | Accounts receivable | 236 | Unearned consulting revenue | 302 | C. Taylor, Withdrawals | 406 | Rental revenue | 637 | Insurance expense |
| 126 | Supplies | | | | | | | 640 | Rent expense |
| 128 | Prepaid insurance | | | | | | | 652 | Supplies expense |
| 167 | Equipment | | | | | | | 690 | Utilities expense |

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# Learning Objective C2

Define *debits* and *credits* and explain double-entry accounting.

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# Debits and Credits

A T-account represents a ledger account and is used to show the effects of transactions.

| Account Title | |
|---|---|
| (Left side)<br>***Debit*** | (Right side)<br>**Credit** |

Exhibit 2.5

**Learning Objective C2:** Define debits and credits and explain double-entry accounting.

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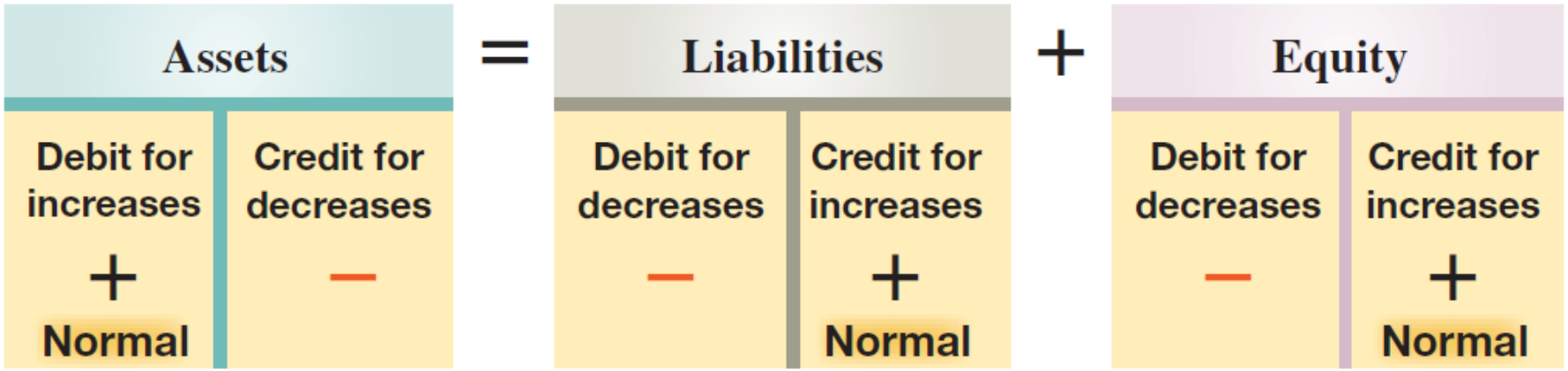
# Double-Entry Accounting

**Assets** = **Liabilities** + **Equity**

Exhibit 2.6




**Learning Objective C2:** Define debits and credits and explain double-entry accounting.

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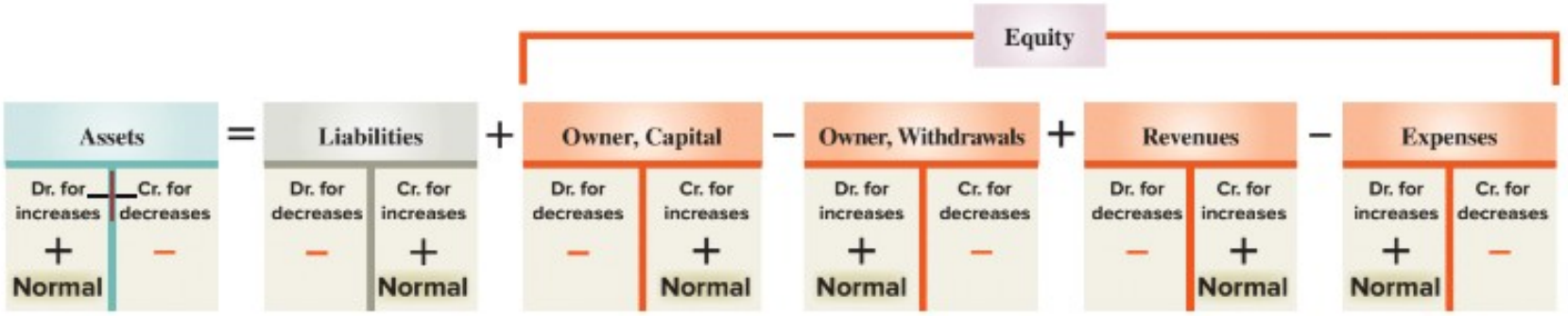
# Double-Entry Accounting: Expanded Accounting Equation

Here is the expanded accounting equation showing the equity section.

Exhibit 2.7




**Learning Objective C2:** Define debits and credits and explain double-entry accounting.

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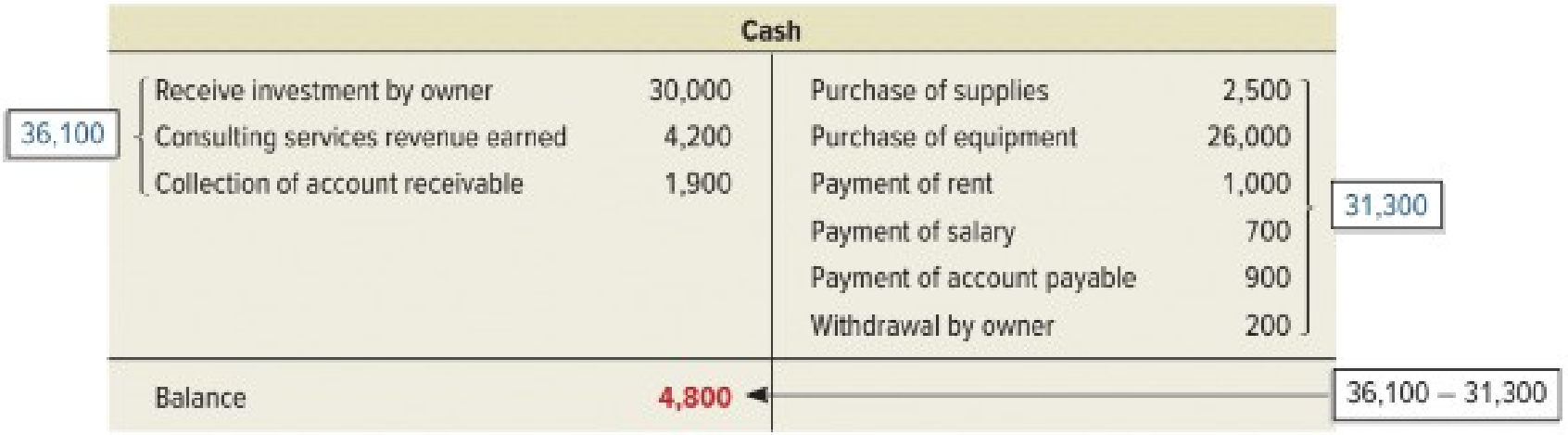
# Double-Entry Accounting: Account Balance

An account balance is the difference between the increases and decreases in an account. Notice the T-Account.

Exhibit 2.8

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# Learning Objective A1

Analyze and record transactions and their impact on financial statements.

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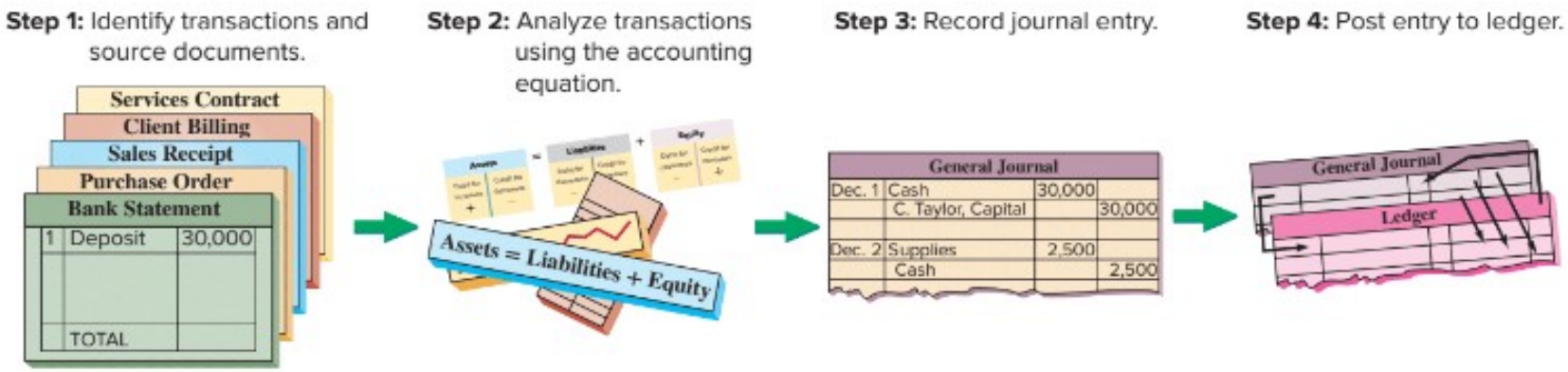
# Journalizing and Posting Transactions

Exhibit 2.9

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# Journalizing Transactions

**a. Transaction Date**

**b. Title of accounts debited and amount entered in Debit column.**

Exhibit 2.10

General Journal

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| 2021 (a) Dec. 1 | (b) Cash | | 30,000 | |
| | (c) C. Taylor, Capital | | | 30,000 |
| | *Receive investment by owner.* (d) | | | |
| Dec. 2 | Supplies | | 2,500 | |
| | Cash | | | 2,500 |
| | *Purchase supplies for cash.* | | | |

**d. Transaction explanation**

**c. Title of accounts credited and amount entered in Credit column.**

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# Balance Column Account

Exhibit 2.11

T-accounts are useful illustrations, but balance column accounts are used in practice.

General Ledger

Cash Account No. 101

| Date | Explanation | PR | Debit | Credit | Balance |
|---|---|---|---|---|---|
| 2021 Dec. 1 | | G1 | 30,000 | | 30,000 |
| Dec. 2 | | G1 | | 2,500 | 27,500 |
| Dec. 3 | | G1 | | 26,000 | 1,500 |
| Dec. 10 | | G1 | 4,200 | | 5,700 |

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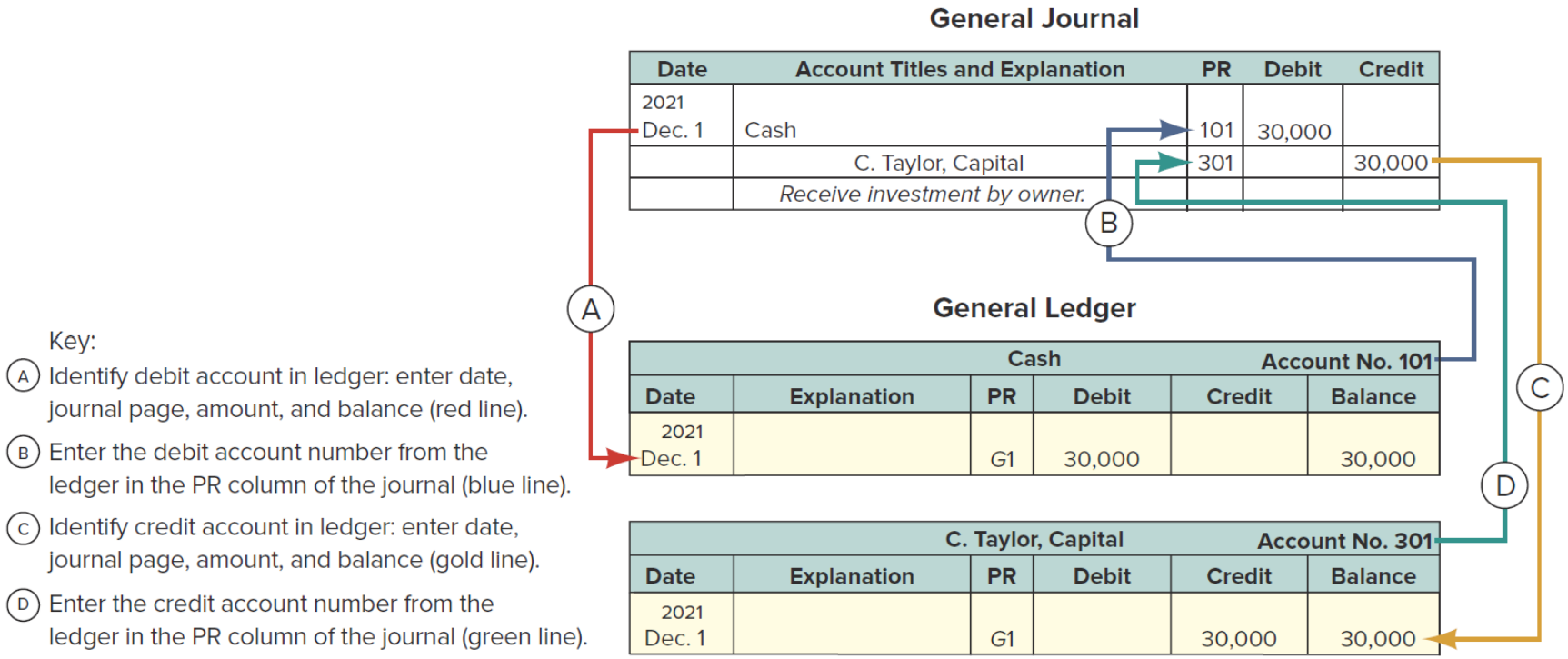
# Posting Journal Entries

Exhibit 2.12

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# Processing Transactions

Double-entry accounting is useful in analyzing and processing transactions. Analysis of each transaction follows these four steps.

**Step 1** Identify transactions and source documents.

**Step 2** Analyze the transaction using the accounting equation.

**Step 3** Record the journal entry.

**Step 4** Post the entry (for simplicity, we use T-accounts as ledger accounts).

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# Processing Transactions 1

**1. Receive Investment by Owner**

**1 IDENTIFY** FastForward receives $30,000 cash from Chas Taylor as an owner investment.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | C. Taylor, Capital |
| Cash | | | | |
| +30,000 | = | 0 | | +30,000 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (1) | Cash | 101 | 30,000 | |
| | C. Taylor, Capital | 301 | | 30,000 |

**4 POST**

| Cash | | 101 |
|---|---|---|
| (1) | 30,000 | |

| C. Taylor, Capital | | 301 |
|---|---|---|
| | (1) | 30,000 |

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# Processing Transactions 2

## 2. Purchase Supplies for Cash

**1 IDENTIFY** FastForward pays $2,500 cash for supplies.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Supplies | | | | |
| −2,500 | +2,500 | = | 0 | + | 0 |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (2) | Supplies | 126 | 2,500 | |
| | Cash | 101 | | 2,500 |

**4 POST**

| Supplies | | | 126 |
|---|---|---|---|
| (2) | 2,500 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |

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# Processing Transactions 3

### 3. Purchase Equipment for Cash

**1 IDENTIFY** FastForward pays $26,000 cash for equipment.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Equipment | | | | |
| −26,000 | +26,000 | = | 0 | + | 0 |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (3) | Equipment | 167 | 26,000 | |
| | Cash | 101 | | 26,000 |

**4 POST**

| Equipment | | | 167 |
|---|---|---|---|
| (3) | 26,000 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| | | (3) | 26,000 |

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# Processing Transactions 4

### 4. Purchase Supplies on Credit

**1 IDENTIFY** FastForward purchases $7,100 of supplies on credit from a supplier.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Supplies | | Accounts Payable | | |
| +7,100 | = | +7,100 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (4) | Supplies | 126 | 7,100 | |
| | Accounts Payable | 201 | | 7,100 |

**4 POST**

| Supplies | | 126 |
|---|---|---|
| (2) | 2,500 | |
| (4) | 7,100 | |

| Accounts Payable | | 201 |
|---|---|---|
| | (4) | 7,100 |

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# Processing Transactions 5

## 5. Provide Services for Cash

**1 IDENTIFY** FastForward provides consulting services and immediately collects $4,200 cash.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | | | Consulting Revenue |
| +4,200 | = | 0 | | +4,200 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (5) | Cash | 101 | 4,200 | |
| | Consulting Revenue | 403 | | 4,200 |

**4 POST**

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |

| Consulting Revenue | | | 403 |
|---|---|---|---|
| | | (5) | 4,200 |

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# Processing Transactions 6

## 6. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays $1,000 cash for December rent.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | | | Rent Expense |
| −1,000 | = | 0 | | −1,000 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (6) | Rent Expense | 640 | 1,000 | |
| | Cash | 101 | | 1,000 |

**4 POST**

| Rent Expense | | | 640 |
|---|---|---|---|
| (6) | 1,000 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| | | (6) | 1,000 |

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# Processing Transactions 7

## 7. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays $700 cash for employee salary.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | | | Salaries Expense |
| −700 | = | 0 | | −700 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (7) | Salaries Expense | 622 | 700 | |
| | Cash | 101 | | 700 |

**4 POST**

Salaries Expense 622

| | | | |
|---|---|---|---|
| (7) | 700 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| | | (6) | 1,000 |
| | | (7) | 700 |

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# Processing Transactions 8

## 8. Provide Consulting and Rental Services on Credit

**1 IDENTIFY** FastForward provides consulting services of $1,600 and rents its test facilities for $300. The customer is billed $1,900 for these services.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity | |
|---|---|---|---|---|---|
| Accounts Receivable | | | | Consulting Revenue | Rental Revenue |
| +1,900 | = | 0 | | +1,600 | +300 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (8) | Accounts Receivable | 106 | 1,900 | |
| | Consulting Revenue | 403 | | 1,600 |
| | Rental Revenue | 406 | | 300 |

**4 POST**

| Accounts Receivable | | 106 |
|---|---|---|
| (8) | 1,900 | |

| Consulting Revenue | | 403 |
|---|---|---|
| | (5) | 4,200 |
| | (8) | 1,600 |

| Rental Revenue | | 406 |
|---|---|---|
| | (8) | 300 |

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# Processing Transactions 9

**9. Receipt of Cash from Accounts Receivable**

**1 IDENTIFY** FastForward receives $1,900 cash from the customer billed in Transaction 8.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Accounts Receivable | | | | |
| +1,900 | −1,900 | = | 0 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (9) | Cash | 101 | 1,900 | |
| | Accounts Receivable | 106 | | 1,900 |

**4 POST**

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |

| Accounts Receivable | | | 106 |
|---|---|---|---|
| (8) | 1,900 | (9) | 1,900 |

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# Processing Transactions 10

**10. Partial Payment of Accounts Payable**

**1 IDENTIFY** FastForward pays $900 cash toward the accounts payable of Transaction 4.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | Accounts Payable | | |
| −900 | = | −900 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (10) | Accounts Payable | 201 | 900 | |
| | Cash | 101 | | 900 |

**4 POST**

Accounts Payable 201

| | | | |
|---|---|---|---|
| (10) | 900 | (4) | 7,100 |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |
| | | (10) | 900 |

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# Processing Transactions 11

**11. Withdrawal of Cash by Owner**

**1 IDENTIFY** C. Taylor withdraws $200 cash from FastForward for personal use.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | C. Taylor, Withdrawals |
| Cash | | | | |
| −200 | = | 0 | | −200 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (11) | C. Taylor, Withdrawals | 302 | 200 | |
| | Cash | 101 | | 200 |

**4 POST**

C. Taylor, Withdrawals 302

| | | | |
|---|---|---|---|
| (11) | 200 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |

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# Processing Transactions 12

## 12. Receipt of Cash for Future Services

**1 IDENTIFY** FastForward receives $3,000 cash in advance of providing consulting services to a customer.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | Unearned Consulting Revenue | | |
| Cash | | | | |
| +3,000 | = | +3,000 | + | 0 |

Accepting $3,000 cash obligates FastForward to perform future services and is a liability. No revenue is earned until services are provided.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (12) | Cash | 101 | 3,000 | |
| | Unearned Consulting Revenue | 236 | | 3,000 |

**4 POST**

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |

| Unearned Consulting Revenue | | | 236 |
|---|---|---|---|
| | | (12) | 3,000 |

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# Processing Transactions 13

## 13. Pay Cash for Future Insurance Coverage

**1 IDENTIFY** FastForward pays $2,400 cash (insurance premium) for a 24-month insurance policy. Coverage begins on December 1.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Prepaid Insurance | | | | |
| −2,400 | +2,400 | = | 0 | + | 0 |

Changes the composition of assets from cash to prepaid insurance. Expense is incurred as insurance coverage expires.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (13) | Prepaid Insurance | 128 | 2,400 | |
| | Cash | 101 | | 2,400 |

**4 POST**

| Prepaid Insurance | | | 128 |
|---|---|---|---|
| (13) | 2,400 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |

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# Processing Transactions 14

## 14. Purchase Supplies for Cash

**1 IDENTIFY** FastForward pays $120 cash for supplies.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Supplies | | | | |
| −120 | +120 | = | 0 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (14) | Supplies | 126 | 120 | |
| | Cash | 101 | | 120 |

**4 POST**

| Supplies | | | 126 |
|---|---|---|---|
| (2) | 2,500 | | |
| (4) | 7,100 | | |
| (14) | 120 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |

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# Processing Transactions 15

## 15. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays $305 cash for December utilities expense.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Utilities Expense |
| Cash | | | | |
| −305 | = | 0 | | −305 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (15) | Utilities Expense | 690 | 305 | |
| | Cash | 101 | | 305 |

**4 POST**

| Utilities Expense | | | 690 |
|---|---|---|---|
| (15) | 305 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |
| | | (15) | 305 |

**Learning Objective A1:** Analyze and record transactions and their impact on financial statements.

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# Processing Transactions 16

## 16. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays $700 cash in employee salary for work performed in the latter part of December.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | | | Salaries Expense |
| −700 | = | 0 | | −700 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (16) | Salaries Expense | 622 | 700 | |
| | Cash | 101 | | 700 |

**4 POST**

Salaries Expense 622

| | | | |
|---|---|---|---|
| (7) | 700 | | |
| (16) | 700 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |
| | | (15) | 305 |
| | | (16) | 700 |

**Learning Objective A1:** Analyze and record transactions and their impact on financial statements.

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# Summarizing Transactions in a Ledger

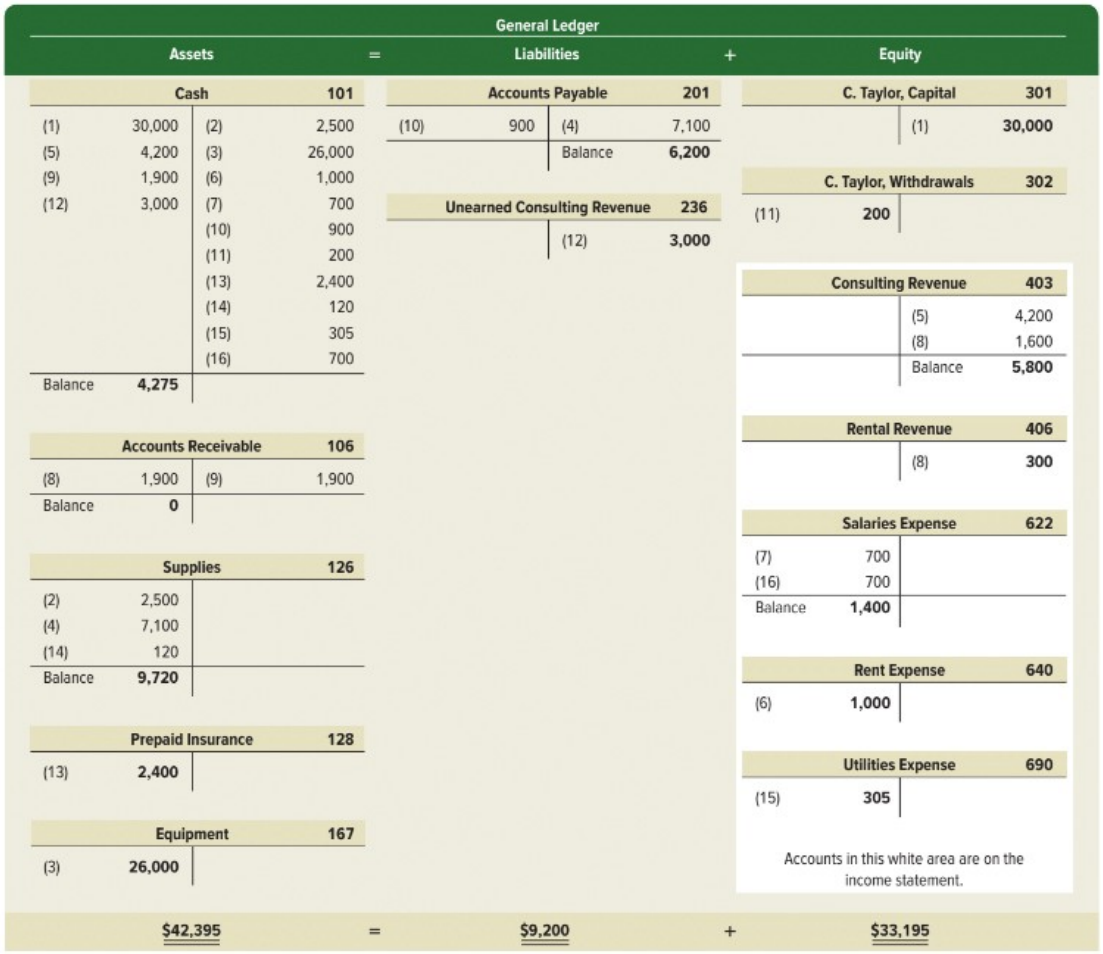


Exhibit 2.13

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# Learning Objective P1

Prepare financial statements from a trial balance.

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# Preparing a Trial Balance

Preparing a trial balance has three steps:

1. List each account title and its amount (from ledger) in the trial balance.
2. Compute the total of debit balances and the total of credit balances.
3. Verify (prove) total debit balances equal total credit balances.

**Learning Objective P1:** Prepare financial statements from a trial balance.

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# FastForward's Trial Balance

Exhibit 2.14

| FASTFORWARD Trial Balance December 31, 2021 | Debit | Credit |
|---|---|---|
| Cash . . . . . | $ 4,275 | |
| Accounts receivable . . . . . | 0 | |
| Supplies . . . . . | 9,720 | |
| Prepaid insurance . . . . . | 2,400 | |
| Equipment . . . . . | 26,000 | |
| Accounts payable . . . . . | | $ 6,200 |
| Unearned consulting revenue . . . | | 3,000 |
| C. Taylor, Capital . . . . . | | 30,000 |
| C. Taylor, Withdrawals . . . . | 200 | |

The trial balance lists all ledger accounts and their balances at a point in time. If the books are in balance, the total debits will equal the total credits.

**Learning Obj**
trial balance.

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# Searching for Errors

**If the trial balance does not balance, the error(s) must be found and corrected.**

- Verify the trial balance columns are correctly added.
- Recompute each account balance in the ledger.
- Verify account balances are correctly entered from the
- Verify that each journal entry is posted correctly.
- See if debit or credit accounts are mistakenly placed on
- Verify that each original journal entry has equal debits and

**Learning Objective 2-1:** Explain financial statements from a trial balance.

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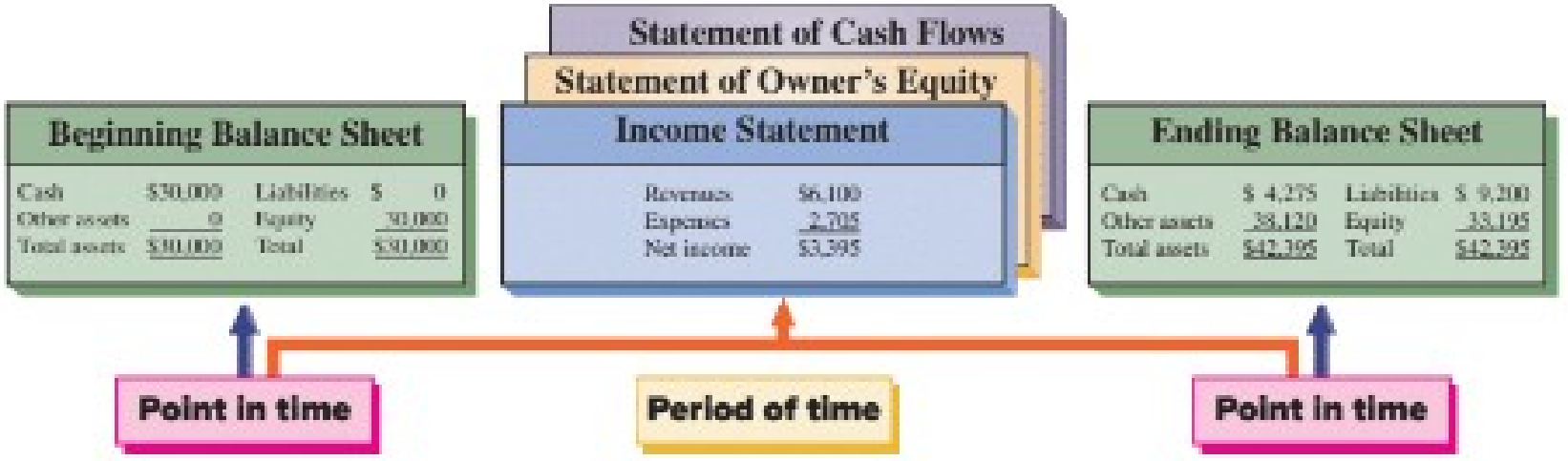
# Financial Statements Prepared from Trial Balance

Exhibit 2.15




**Learning Objective P1:** Prepare financial statements from a trial balance.

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# Financial Statements

The four financial statements and their purposes are:

1. **Income statement**—reports revenues less expenses incurred by a business over a period of time.
2. **Statement of owner's equity**—reports changes in equity over the reporting period from net income (or loss) and from any owner investments or withdrawals over a period of time.
3. **Balance sheet**—reports the financial position (types and amounts of assets, liabilities, and equity) at a point in time.
4. **Statement of Cash Flows**—lists the cash inflows and cash outflows for the period.

***For simplicity, we do not show the statement of cash flows for FastForward in this chapter, but we do return to this statement in the next chapter.***

**Learning Objective P1:** Prepare financial statements from a trial balance.

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# Income Statement

| FASTFORWARD<br>Income Statement<br>For Month Ended December 31, 2021 | | |
|---|---|---|
| Revenues | | |
| Consulting revenue ($4,200 + $1,600). . . | $5,800 | |
| Rental revenue. . . . . | 300 | |
| Total revenues. . . . . | | $ 6,100 |
| Expenses | | |
| Salaries expense. . . . . | 1,400 | |
| Rent expense. . . . . | 1,000 | |
| Utilities | 305 | |

Exhibit 2.16

**Learning C**
trial balance

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# Statement of Owner's Equity

Exhibit 2.16

**FASTFORWARD**
**Income Statement**
**For Month Ended December 31, 2021**

| | | |
|---|---|---|
| Revenues | | |
| Consulting revenue ($4,200 + $1,600). . . | $5,800 | |
| Rental revenue. . . . . | 300 | |
| Total revenues. . . . . | | $ 6,100 |
| Expenses | | |
| Salaries expense. . . . . | 1,400 | |
| Rent expense. . . . . | 1,000 | |
| Utilities expense. . . . . | 305 | |
| Total expenses. . . . . | | 2,705 |
| Net income. . . . . | | **$ 3,395** |

**FASTFORWARD**
**Statement of Owner's Equity**
**For Month Ended December 31, 2021**

| | | |
|---|---|---|
| C. Taylor, Capital, December 1, 2021 . . . . . | | $ 0 |
| Plus: Investments by owner . . . . . | $30,000 | |
| Net income . . . . . | **3,395** | 33,395 |
| | | 33,395 |
| Less: Withdrawals by owner . . . . . | | 200 |
| C. Taylor, Capital, December 31, 2021 . . . . . | | $33,195 |

**Learning C**
trial balance

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# Balance Sheet

Exhibit 2.16

**FASTFORWARD**
**Statement of Owner's Equity**
**For Month Ended December 31, 2021**

| | | |
|---|---|---|
| C. Taylor, Capital, December 1, 2021 . . . . . | | $ 0 |
| Plus: Investments by owner . . . . . | $30,000 | |
| Net income . . . . . | **3,395** | 33,395 |
| | | 33,395 |

**FASTFORWARD**
**Balance Sheet**
**December 31, 2021**

| **Assets** | | **Liabilities** | |
|---|---|---|---|
| Cash . . . . . | $ 4,275 | Accounts payable . . . . . | $ 6,200 |
| Supplies . . . . . | 9,720 | Unearned consulting revenue . . . | 3,000 |
| Prepaid insurance. . . . . | 2,400 | Total liabilities . . . . . | 9,200 |
| Equipment . . . . . | 26,000 | **Equity** | |
| | | C. Taylor, | |

**Learning**
trial balar

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# Presentation Issues

1. Dollar signs are not used in journals and ledgers.
2. Dollar signs appear in financial statements and other reports such as trial balances.
3. Put dollar signs beside only the first and last numbers in a column.

**Learning Objective P1:** Prepare financial statements from a trial balance.

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# Learning Objective A2

Compute the debt ratio and describe its use in analyzing financial condition.

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# Debt Ratio - Equation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

Evaluates the level of debt risk.

A higher ratio indicates that there is a greater probability that a company will not be able to pay its debt in the future.

**Learning Objective A2:** Compute the debt ratio and describe its use in analyzing financial condition.

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# Debt Ratio - Computation

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

Exhibit 2.18

| Company ($ millions) | | Current Year | 1 Year Ago | 2 Years Ago |
|---|---|---|---|---|
| **Costco** | Total liabilities..... | $29,816 | $27,727 | $25,268 |
| | Total assets..... | $45,400 | $40,830 | $36,347 |
| | **Debt ratio**..... | **0.66** | **0.68** | **0.70** |
| **Walmart** | Debt ratio..... | 0.64 | 0.60 | 0.59 |

**Learning Objective A2:** Compute the debt ratio and describe its use in analyzing financial condition.

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# End of Chapter 2

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